LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317)232-9855

ADMINISTRATIVE RULE
FISCAL IMPACT STATEMENT

PROPOSED RULE: 99-95 **DATE PREPARED:** Dec 6, 1999
STATE AGENCY: State Board of Tax Commissioners **DATE RECEIVED:** Oct 21, 1999

FISCAL ANALYST: Bob Sigalow
PHONE NUMBER: 232-9859

Digest of Proposed Rule: This proposed rule creates a manual and cost tables for the assessment of real property. It also repeals the current rule regarding the assessment of real property.

IC 6-1.1-4-4 requires a general reassessment of real property to be completed every four years with March 1, 2001 being the next effective date. The State Tax Board, under authority of IC 6-1.1-4-26, may adopt or promulgate regulations, appraisal manuals, rules, bulletins, directives, and forms for the assessment and reassessment of real property. The State Tax Board is also required by IC 6-1.1-31-1 to adopt rules concerning the assessment of all tangible property.

Governmental Entities: State: This rule places no unfunded mandates upon state government.

The change in tax liability of residential property tax payers as a result of reassessment using the proposed manual will also cause the state's liability for homestead credit to change. Under current law, the homestead credit is scheduled to be reduced from its current 10% to 4% in CY 2002. Estimates of the change in residential property tax liability, and therefore the change in homestead credit cost, are not yet available. If the tax liability for residential property rises, so will the cost of the homestead credit.

Homestead credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any change in homestead credit expenditures would ultimately affect the state General Fund.

Local: This rule places no unfunded mandates upon any local government unit.

Regulated Entities: The regulated entities affected by this proposed rule are the owners of taxable real and personal property in the state of Indiana. Compared to the assessment manual currently in use, the proposed manual contains major substantive changes in the cost tables, depreciation tables, agricultural base rate, neighborhood classifications, condition classifications, and grading. The proposed manual also introduces a new concept called shelter allowance. This allowance is reportedly equal to the cost of basic shelter in the area and is available for all owner-occupied dwellings in the state.

Due to the implementation of a market driven depreciation table, the proposed manual will attempt to create an assessed value closer to market value for residential properties. The implementation of this concept will create substantial changes in residential assessed values. The data to analyze this change is not complete at this time.

An analysis is currently being performed by Purdue University to determine how the proposed manual compares to the previous manual and, specifically, how these changes affect the relative tax burdens on the various classes of property. Although total property tax collections are not affected, the tax paid by owners of the various classes of property will most likely change, creating a shift of the tax burden between classes. Additionally, tax shifts will most likely occur within some property classes.

The comparison of the manuals leads to the development of property class multipliers. Multipliers are average factors that show how true tax values for each property type will change when the proposed manual replaces the current manual. These multipliers are verified by repricing a stratified sample of property record cards representing each class of property. A statewide average is calculated and applied to estimate results for all 92 counties. The multipliers are then used to estimate changes in property tax liability by property class.

This impact statement will be updated when the Purdue analysis is completed.

Information Sources: Bill Jones and Dr. Larry DeBoer, Purdue University.